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Personal Taxes Compared Among Eight States

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SUMMARY

Relative to the national average ($664) and to most neighboring and competitive states (West Virginia, Virginia, North Carolina, South Carolina, Pennsylvania, and Ohio), state and local government taxes per capita are high in Maryland ($728). Maryland has a relatively balanced revenue raising system, although local governments' heavy reliance on the personal income tax distinguishes them from most other local governments. Among the states compared, and in relation to the national average, Maryland distinguishes itself as one in which the state dominates local governments as a revenue raiser, but the local governments dominate the state on the expenditure side.

Measured in terms of taxes per $1000 of personal income, the overall tax burden in Maryland ($117.80) is higher than in neighboring states, although it does fall below the national average ($119.58). Individual income taxes in Maryland measured per $1000 of personal income are high, $38.87, and exceed the national average ($22.14) by 75 percent. Individual income taxes in comparative states fall below the national average. Although substantially below the national average of $43.06 per $1000 of personal income, property taxes in Maryland, at $34.34 per $1000 of personal income, are high relative to those in neighboring states. Personal taxes, those paid by individuals rather than businesses, are high in Maryland in comparison to both neighboring states and the national average. With the exception of lower income levels ($5000), where the difference is 23 percent, state and local taxes as a percent of family income exceed the national counterpart by an amount which is never less than 33 percent, and which increases with income.

Personal taxation in Maryland is regressive: personal taxes account for a smaller percent of income at higher income levels than at lower income levels

(e.g., 11.9 percent at the $25,000 income level, 13.9 percent at the $7,500 income level). The regressivity of personal taxes in Maryland implies that the revenues from these taxes will grow at a slower rate than income. Unless state and local government expenditure increases are restrained, Marylanders are likely to face increases in their already high personal tax burdens.

Maryland is similar to other northern and eastern states in that its tax burdens are high, but they have increased more rapidly than in most states. This would seem to dictate that government officials take heed of the situation; and a thorough examination of Maryland state and local government revenue and expenditure systems, particularly as they are related to the changing economy, seems essential if the state is to avoid fiscal deterioration.

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INTRODUCTION

Growing levels of state and local government revenues and expenditures have been accompanied by, and perhaps necessitated, a diversification among the various sources from which revenues are drawn. Although state and local governments differ widely in their reliance on various revenue sources, two trends stand out. The first is the rapid growth of the federal government as a source of state and local government revenues; in 1977, nationwide federal aid is estimated to have amounted to 20.8 percent of state and local government revenues.[1] The second is the increasing role of state taxes, particularly state income taxes, and the relative decline in property taxes which have accompanied the 195 percent increase in state and local taxes in the decade since 1967.[2]

Although these trends have produced a greater balance among the revenue systems of the states, they have not led to standardization of taxes. The burdens associated with state and local government activities vary greatly among states. This fact has not gone unnoticed, although it has received most attention from those concerned with business and plant location.[3] The tax burdens imposed on individuals and families by state and local governments have also received a good deal of consideration; however, it is generally the central city/suburban rather than the interstate tax burden differences which have been of

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[1]This reflects an almost threefold increase in federal aid since 1970, and has resulted in a 37% increase in federal aid as a percent of state and local government expenditures between 1970 and 1977.

For a detailed account of the growth in state and local government revenue by source and level of government, see Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1976-77 Edition, Vol. II. Unless otherwise noted, this volume is the source of the data discussed in this sectio

[2]Total state tax collections, state income tax collections, and local property tax revenues increased by 79, 2.34, and 84 percent respectively between 1970 and 1976.

[3]For a recent comparative business tax study and review of selected earlier

concern.[4] The purpose here is to review interstate differences in taxes among a selected group of states, with particular reference to Maryland.[5] The goal of this review is not simply to provide a description of rates of taxation; rather, it will attempt to identify some of the elements of state and local government fiscal structures which may affect the differences in taxes, in particular personal taxes, and to explore their implications for revenue growth.

The states under consideration here provide an interesting contrast, both among themselves and with the nation as a whole (see Table 1). In only two states, Maryland and Delaware, do the state and local governments raise revenues in amounts per capita ($1145 and $1201, respectively) which exceed the national average ($1071). Of the other six states, revenues per capita fall below the national average in three by more than two hundred dollars: North Carolina ($844); South Carolina ($824); and Ohio ($870); and in the remaining three by one hundred to one hundred fifteen dollars: West Virginia ($938); Virginia ($929); and Pennsylvania ($975).

State and local governments raise revenues for the purpose of providing

studies of interstate differences in business tax burdens, see "The Business Climate in Maryland," a report to the Commission on Governmental Efficiency and Economy, the Chamber of Commerce of Metropolitan Baltimore (Baltimore, Md.: 8 March 1977).

[4] See, for example, Roy Bahl et al., Comparative Tax Burdens in Manhattan, Queens, and Selected New York Metropolitan Area Suburbs, Maxwell School of Citizenship and Public Affairs, Syracuse University, Occasional Paper No. 20, 1975; and Advisory Commission on Intergovernmental Relations, Fiscal Balance in the American Federal System, Commission Findings and Proposals M-47 (Springfield, Va.: NTIS, October 1969). Also, see the report of the Citizen's Committee on Baltimore City/State of Maryland Fiscal Relations, Baltimore, Md., 3 January 1975.

[5] The remaining states are West Virginia, Virginia, North Carolina, South Carolina, Pennsylvania, Delaware, and Ohio. These states are of interest because they are generally considered as alternative locations for business firms, and because a comparative analysis of business tax burdens of these states is available. See "The Business Climate in Maryland," op. cit.

services to their constituents. While there is a good deal of discussion in the current literature concerning the factors which underly interjurisdictional differences in levels of services provided by state and local governments, that there is a relation between services provided and revenues collected is questioned by none. This being the case, these substantial differences in per capita revenues no doubt are indicative of differences in the levels of expenditures for various types of public service made available to an average citizen.[6]

Alternatively, per capita revenue differences need not necessarily be indicative of similar differences in the taxes paid by an average family or individual. States draw their revenues from a variety of sources, which, in addition to taxes paid by individuals, include those paid by business as well as other local non-tax revenue sources such as charges, fees, etc., and federal aid. Whether personal taxes reflect per capita revenue differences depends on the extent to which state and local governments cultivate business taxes and non-tax revenue sources. This matter is taken up in the following sections as a prelude to the consideration of tax rates and personal taxes.

STATE AND LOCAL GOVERNMENT REVENUES: LEVELS, SOURCES, AND BALANCE

Among the states considered here, there appear to be characteristic differences in the degree of reliance on the three major revenue sources: federal aid, taxes, and non-tax revenues (Table 1, Columns 4-6, respectively). Principal among these is a reliance on federal funds among the southernmost states which exceeds both the national average and that of the northern and more

[6] For a discussion of the relation between revenues and expenditures for the provision of public services, see Bahl, R.W., "Studies on Determinants of Public Expenditures: A Review," in Sharing Federal Funds for State and Local Needs, Grants-in-aid and PPB System, ed. by S.J. Mushkin and J.F. Cotton (New York: Praeger, 1969); Fredland, J.E., "Determinants of State and Local Expenditures:

Table 1

Per Capita General Revenues, Percent Distribution of State and Local Government Revenues by Source and Level of Government, State as a Percent of State and Local Own Source Revenues, and State Share of Total Direct State and Local Government Expenditures, 1975

	Per Capita General Revenues: Total[a]	Per Capita General Revenues: Federal Aid	Per Capita General Revenues: Taxes	Federal Aid	State & Local Taxes	Charges & Miscellaneous	State as a % of Total Direct General Expenditures
Maryland	$1145	$ 219	$ 728	19.1%	63.5%	17.4%	35.6%
West Virginia	938	280	533	29.9	58.8	13.3	58.3
Virginia	929	200	563	21.6	60.6	17.8	42.9
North Carolina	844	223	485	26.4	57.5	16.0	39.4
South Carolina	824	198	446	24.1	54.1	21.8	55.5
Delaware	1201	225	727	18.8	60.6	20.7	57.1
Pennsylvania	975	201	636	20.6	65.3	14.1	44.9
Ohio	870	164	534	18.8	61.4	19.4	36.3
U.S. Average	1071	221	664	20.6	62.0	17.4	37.6

[a] Includes charges and miscellaneous revenues not shown separately.

Source: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1976-77 Edition: Volume II - Revenue and Debt (Washington, D.C.: ACIR, M-110, 1977).

industrialized states, Maryland, Ohio, Delaware, and Pennsylvania.[7] However, the relatively greater dependence of the northern states on their own revenue sources should not be taken as a direct indication of their dependence on taxes. Of the states which rely least on federal revenues, only Maryland relies heavily on taxes when judged against the national average. Still, relative to their southern neighbors, the northern states show a greater reliance on taxes; but the pattern is neither exact (Virginia and Delaware both draw 60.6% of their revenues from taxes), nor closely correlated with the shares of revenues derived from the federal government. This is so because states draw revenues from non-tax sources (Table 1, Column 4), and the extent of their reliance on these sources does not appear to conform to the north-south dichotomy. Two of the four southern states, Virginia and South Carolina, join two of the northern states, Ohio and Delaware, in a dependence on non-tax revenue sources which exceeds the national average (i.e., 17.4%), while Pennsylvania, Virginia, and North Carolina fall below the national average. Thus, only in Maryland does a relatively small share of federal revenues translate directly into a greater dependence on tax revenues. Pennsylvania shares with Maryland a heavy reliance on taxes. However, as Pennsylvania receives a share of federal revenue equal to the national average, its heavy reliance on taxes results from its relatively low utilization of non-tax revenue sources.

An Annotated Bibliography," an Urban Institute Report (Washington, D.C.: Urban Institute, December 1974); and Wilensky, G., "Determinants of Local Government Expenditures," in Financing the Metropolis: Public Policy in Urban Economics, ed. by John Crecine (Beverly Hills, Calif.: Sage Publications, 1970).

[7] The relatively large amounts of federal aid received by southern states have been a topic of considerable discourse in the context of what has become known as the "Sunbelt" phenomenon, i.e., the economically growing southern and declining northeastern states. See, for example, R.P. Nathan and P.R. Dommel, "The Strong Sunbelt Cities and the Weak Coldbelt Cities," Committee on Banking, Finance, and Urban Affairs, 95th Congress, 1st Session, 1977, and J. Havemann et al., "Federal Spending: The North's Loss is the Sunbelt's Gain," National Journal (1976).

Care must be taken not to presume that an equalization of federal aid would greatly alter the amounts of taxes raised on per capita bases. Ohio and Pennsylvania, which, like the other northern states, are not greatly reliant on federal aid, are like the southern states in that, on a per capita basis, taxes are low relative to the national average ($664; see Column 3). Alternatively, in Maryland and Delaware, as well as in Virginia, federal aid as a share of total revenues does not differ greatly from the national average, but tax revenues per capita do: Maryland, $728; Delaware, $727; and Virginia, $563. In fact, if state and local taxes were adjusted so as to accommodate an equalization of per capita federal aid, only Virginia would have to greatly increase per capita tax revenues. With no change in total or non-tax revenues, equalization of per capita federal monies could accommodate a reduction of per capita tax revenues in all the northern states, especially Ohio, and in two of the southern states, Virginia and South Carolina. The effect on Maryland's per capita taxes, however, would be small, two dollars, and would not clearly result in a per capita tax burden comparison more favorable to Maryland.

Clearly, the mechanisms which determine tax and federal revenues are much too complicated to be so easily manipulated as the above comparisons imply. They do, however, underscore the fact that, at least with regard to per capita tax revenues, Maryland's position relative to its low tax southern neighbors and Ohio would not be greatly improved by an equalization of per capita federal funds. In fact, in Maryland as well as in Delaware, and, to a lesser extent, Pennsylvania, anything approaching an equalization of per capita tax revenues would require substantial reductions in total revenues, accompanied, no doubt, by a lower level of public service.

An alternative view of revenue sources can be obtained by examining the relative roles that different types of tax revenue sources play in the overall revenue systems. Measures of tax system balance based on the relative importance of revenues from each major tax source to the local and state governments have been calculated for each state (Table 2).[8] Judged in these terms, the overall state and local tax systems in Pennsylvania, North Carolina, and Maryland are the more balanced. Among the more highly unbalanced states, the general sales tax is the major cause of unbalance. The one exception is Virginia, where no single tax source appears to have a dominating influence on the state's overall measure of balance. In Delaware, heavy reliance on the state personal income tax and the local property tax and the absence of a general sales tax produce a highly unbalanced tax system. In all states save Maryland and Pennsylvania, the major causes of unbalance lie in the state tax system.

The two states, Maryland and Pennsylvania, where local tax systems are more responsible for the overall state-local tax imbalance are similar in that a part of the imbalance in the local tax system can be traced to a relative underutilization of the local property tax. In Maryland, however, the major cause of local tax system imbalance is the heavy reliance on the personal income tax, while in Pennsylvania, this is but a reinforcing factor.[9]

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[8] Tax system balance is measured by the summation of the absolute value of the difference between state and national shares of state and local government tax revenues from each tax source (Table 2). These calculations represent a more precise measure than usual procedures which measure balance in terms of broad ranges of revenue shares by tax source. See Advisory Commission on Intergovernmental Relations, Local Revenue Diversification: Income, Sales Taxes and User Charges, Commission Report A-47 (Washington, D.C.: October 1974).

[9] However, local or municipal income taxes exist in only nine of the fifty states: Alabama, Delaware, Kentucky (occupational license tax), Maryland, Michigan, Missouri, New York, Ohio, and Pennsylvania. Numerous counties in Indiana also impose an income tax.

Table 2

Percent Distribution of State and Local General Revenues from Own Source, 1975

	State Governments								Local Governments				
	State as % of Total State & Local Revenue	General Sales & Gross Receipts	Selective Sales & Gross Receipts	Personal Income Tax	Corporate Income Tax	Licenses Taxes	All Other Taxes	Charges & Misc. Revenues	Local as % of Total State & Local Revenue	Property Taxes	Personal Income Tax	Other Taxes	Charges & Misc. Revenues
Maryland	55.9	10.4	10.5	17.5	2.4	2.5	2.2	10.3	44.1	21.6	8;4	3.0	11.1
West Virginia	71.9	30.4	15.6	10.1	1.6	4.2	3.4	9.3	28.1	15.3	--	3.1	9.7
Virginia	59.1	10.0	12.9	15.1	3.2	3.2	1.5	13.1	40.9	21.1	--	10.2	9.6
North Carolina	66.5	12.5	16.1	16.3	4.9	4.7	1.7	10.4	33.5	18.1	--	3.9	11.4
South Carolina	70.0	19.2	15.0	12.0	4.7	2.6	.8	15.7	30.0	15.9	--	1.1	13.1
Pennsylvania	58.7	13.9	12.5	10.9	6.6	5.5	2.4	7.0	41.3	20.6	4.7	5.2	10.8
Delaware	76.1	--	12.7	24.4	3.1	16.5	2.9	16.6	23.9	12.9	1.5	.7	8.9
Ohio	54.6	12.2	11.6	6.3	3.5	4.8	1.7	9.1	50.8	27.4	6.3	1.9	15.3
U.S. Median	53.4	13.7	10.2	10.4	3.7	3.5	2.8	9.2	46.6	27.6	1.4	4.8	12.7

[a]Calculated from Table 8, pp. 16-18, and Table 26, p. 40, of ACIR Significant Features..., op. cit.

Source: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1976-77, Table 8.

An alternative view of balance can be obtained by examining the relative roles of state and local government as sources of revenue. As indicated by the proportion of total state and local government revenues raised by the state (Table 1, Column 7), the revenue systems of seven of the eight states considered here can be described as state-dominated. That is, except for Ohio, state governments are responsible for a larger than the national average share of total state and local revenues. However, even among these states, the degree of domination differs greatly, as the local governments play a much larger revenue raising role in Maryland, Virginia, and Pennsylvania than in the other states. Delaware, South Carolina, and West Virginia, where the state governments account for at least 7 out of every 10 dollars of state-local revenues, are the most unbalanced when judged by the national norm.

Although it is the revenue raising picture which is of primary interest here, a failure to consider the expenditure responsibilities of state and local governments would leave a distorted picture of state-local fiscal dominance. Nationally, state governments account for a smaller proportion of combined state and local direct expenditures (37.6%) than of revenues (53.4%). Of the eight states considered here, only in Maryland and Ohio do the state shares of total state-local expenditures fall below the national average.[10] However, while local governments are dominant in both the revenue and expenditure sides in Ohio, Maryland is the only state (of those under consideration) in which a level of government, in this case the state, is dominant on the revenue but not the

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[10] It should be noted that, in North Carolina, although the state dominates both the revenue and expenditure systems, the difference in the degree of revenue relative to expenditure dominance is even greater than that which exists in Maryland.

expenditure side.[11]

The nature of intergovernmental fiscal responsibility is of more than passing interest to this study of personal taxes. Recent research has established a systematic relation between the state-local dominance of revenue and expenditure and federal funds received.[12] In particular, states in which the state government has the dominant revenue and expenditure responsibility tend to participate more in most federal aid programs than do those in which local governments dominate state-local fiscal systems.

The implication, and it is borne out by the data discussed above, is that states like Maryland, which have a strong local emphasis, must rely heavily on their own revenue sources, and therefore impose heavier taxes on inhabitants per dollar of expenditure.

Whether a stronger state role in Maryland's state-local fiscal system would lead to an increase in the state's participation in federal aid programs is but speculation at this point, although the available evidence would seem to so indicate. However, given the high per capita taxes in Maryland, such a possibility should at least be considered.

Comparative Tax Rates

Since the states differ in the levels of revenue raised and in the balance they strike among the revenue sources, it is not surprising that they

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[11]Measures of expenditure balance based on detailed elements of the state and local expenditure systems would give a more comprehensive picture of expenditure balance. However, as the principal interest of the analysis is focused on state tax systems, the more general measures of expenditure balance discussed in the text are sufficient for our purposes.

[12]Advisory Commission on Intergovernmental Relations, Federal Grants: Their Effects on State-Local Expenditures, Employment Levels, Wage Rates, Commission Report A-61 (Washington, D.C.: February 1977).

impose taxes at widely different rates. It is difficult to make generalizations from an overview of the legal structure of taxation in each state.[13] In part, this is because the specifics of tax regulations differ greatly among the states, even for the same type of tax, let alone for different taxes. Moreover, the full impact of a particular legal structure cannot be determined by an evaluation of that structure independent of the milieu of which it is a part. For this reason, the interstate comparison of the general source of tax revenues will focus on effective tax rates; that is, tax revenues in relation to income.

Measured in terms of revenue per $1000 of personal income (Table 3), the overall tax rates in Maryland ($117.80) and West Virginia ($118.61) stand above those of the other six states considered here. By comparison, effective tax rates[14] in Pennsylvania ($113.14) and Delaware ($113.27) are somewhat (i.e., about $4) lower, while those of Virginia, North Carolina, and South Carolina run roughly $14 below those of Maryland and West Virginia. The effective tax rate in Ohio is by far the lowest ($95.43) and differs from those of Maryland and West Virginia by about $22, and from the other states considered here by roughly $10. Significant as these differences may be, it is important to note that the overall effective tax rates in all eight of the states considered here fall below the national average, although in Maryland and West Virginia the difference is less

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[13] The characteristics of the legal structure of the major taxes in each state are given in the Appendix.

[14] Effective tax rates as discussed in this section are expressed as tax revenues as a percentage of state personal income; thus, they indicate the amount of personal income received in each state that is accounted for by the taxes imposed by state and local governments.

Table 3

State and Local Government Effective Tax Rates: Tax Revenues per $1000 of Personal Income, Total and Selected Taxes, 1975

	Total Taxes	General Sales & Gross Rec.	Selective Sales[a]	General Property	Individual Income	Corporate Income	Other Taxes[b]
Maryland	117.80	15.61	10.59	34.34	38.87	3.63	14.76
West Virginia	118.66	43.83	14.81	22.08	14.49	2.32	21.13
Virginia	105.66	17.91	15.34	28.88	20.20	4.32	19.01
North Carolina	106.80	21.39	13.06	25.41	21.78	6.59	18.57
South Carolina	104.51	27.53	13.33	23.11	17.19	6.74	16.61
Pennsylvania	113.14	18.96	17.02	28.83	21.31	8.97	18.05
Delaware	113.27	--	18.96	19.60	12.16	4.65	57.90
Ohio	95.43	16.15	14.36	35.51	15.58	4.36	9.47
U.S. Average	119.58	24.33	11.09	43.06	22.14	5.55	13.41

Source: Kenneth E. Quindry, State and Local Revenue Potential, 1975 (Atlanta, Georgia: Southern Regional Education Board, 1976).

[a]Includes taxes on motor fuels, alcoholic beverages, tobacco products, insurance, public utilities, parimutuels, and amusements.

[b]Includes primarily licenses, death and gift, severance, documentary, and stock transfer taxes.

than $2.[15]

This similarity evaporates, and important differences among the states emerge, when the major taxes are examined individually. In terms of sales taxes, it appears that there is little conformity in the effective rates at which the eight states impose general sales and gross receipts taxes.[16] Indeed, the interstate variations in effective sales and gross receipts taxes exceed those of all the major types of taxes. At the extremes are West Virginia, where the effective tax rate ($43.83) is double that of all states except South Carolina; and Delaware, where this type of tax is not imposed. Among the states which do tax general sales and gross receipts, Maryland does so at the lowest effective rate, $15.61, although this rate is only slightly below those in Ohio, $16.15; Virginia, $17.91; and Pennsylvania, $18.96. The effective tax rates are higher in the Carolinas, although only North Carolina, like West Virginia, has an effective rate which exceeds the national average.

The case with selective sales taxes is much different, in that seven of the eight states, in particular Delaware and Pennsylvania, have effective selective sales tax rates which are higher than the national average. The one exception to higher than the national average selective sales tax rates is Maryland, where this tax rate, while only slightly below the national norm, is less than three-quarters of the next highest state, West Virginia.

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[15] This is in contrast to the earlier discussion, where it was indicated that, in Maryland and Delaware, state and local tax revenue per capita was higher than the national average, while the other six states raised tax revenues on per capita amounts which are lower than the national average.

[16] General sales and gross receipts taxes are applicable, with limited exceptions, to all types of goods and services or all gross income. Selective sales and gross receipts are imposed on sales of particular commodities or services or gross receipts of particular businesses separately from general sales and gross receipts. Selective sales and gross receipts taxes include those on motor fuels, alcoholic beverages, tobacco products, insurance, public utilities, parimutuels, and amusements.

Considering combined general and selective sales taxation, only West Virginia stands out, by virtue of an effective tax rate which exceeds the national average by a significant amount, although South Carolina also has a tax rate that is greater than the national average. Alternatively, Delaware's overall effective sales tax rate is lowest, but only because it does not have a general sales tax. Of the states which tax both general and selective sales, Maryland does so at the lowest overall effective rate.

In terms of the property tax, all of the eight states must be judged as low tax burden states when compared to the national average. However, effective rates of property taxation in Maryland, $34.34, and Ohio, $35.51, exceed those of all the other states by at least 25%.[17] Among the states considered, effective property taxes are also relatively higher in Pennsylvania ($28.83); however, the low rate in Delaware ($19.60) and the fairly high rate in Virginia ($28.88) stand against any attempt to establish a north-south dichotomy.

The situation is similar in the case of personal income taxes; i.e., north-south distinctions are not apparent. Indeed, effective income tax rates in Delaware ($12.16) and Ohio ($15.58), as well as in West Virginia ($14.49), are quite low, while those in North Carolina ($21.78), Pennsylvania ($21.31), and Virginia ($20.20) are higher but still below the national average rate ($22.14). Only Maryland ($38.87), with a tax rate seventy-five percent greater than the national average, clearly stands out as a high personal income tax state. While it would be tempting to attribute Maryland's high rates to the existence of local government as well as state income taxes, such a conclusion is unwarranted. Local

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[17] An alternative often cited in comparison of property tax rates is that of average effective property tax rates on single family homes with FHA-insured mortgages. In 1975, this rate in Maryland, at $2.01 per thousand of market value, was much higher than the national average, $1.89, and higher than in any of the states considered here: West Virginia, $.78; Virginia, $1.32; North Carolina, $1.51; South Carolina, $1.07; Pennsylvania, $1.71; Delaware, $.92; and Ohio, $1.29. See

government taxation of individual income also exists in Delaware, Pennsylvania, and Ohio, although it is effective to a much more limited extent. Thus, the explanation for the heavy personal income tax burdens in Maryland must lie somewhere other than in local government ability to tax personal income.[18]

Perhaps as well as anywhere, the difference between statutory and effective tax rates is clearly demonstrated by the corporate income tax. Of the eight states, only three, North Carolina, South Carolina, and Pennsylvania, tax corporate income at effective rates higher than the national average. Of these three, only in Pennsylvania is the statutory rate particularly high (see Appendix Table A). Alternatively, none of the eight states imposes the corporate income tax at a rate lower than North and South Carolina. Three of the states which fall below the national average are grouped fairly closely: Virginia, $4.22; Delaware, $4.65; and Ohio, $4.36. The remaining two states, Maryland ($3.63) and, particularly, Virginia ($2.32) have effective corporate income tax rates which are much lower.

While an explanation of the difference between statutory and effective tax rates is not the intent here, such wide differences as they exist in the case of the corporate income tax clearly spell out a need for broader analysis. In particular, an analysis of the nature and types of business, as they are related to the bases of the property, sales, and personal income taxes, would seem a prerequisite to a full understanding of tax burdens.[19]

Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, op. cit., p. 107.

[18] Earlier in the discussion of balance, it was indicated that in Maryland, as in Ohio, local governments dominate state expenditure systems. However, the states differ in that Maryland has relied on the local income tax to finance high levels of expenditure, while in Ohio, lower expenditure levels rather than higher local income tax rates appear to have been selected. While verification of such a hypothesis is beyond the scope of this study, it is consistent with the data presented herein.

[19] That such an analysis has not been undertaken for Maryland is not

With regard to the "all other" classification of taxes, two elements stand out. First is the relatively high rate of these taxes in Delaware, which probably is established, at least in part, to compensate for the absence of a general sales tax. Second is the fact that the effective rates of these taxes in Maryland are only slightly above the national average, but still the lowest among the eight states. Among the remaining states, effective tax rates are the highest in West Virginia and the lowest in South Carolina, with Virginia, North Carolina, Pennsylvania, and Ohio closely between them. These differences seem to point out differences in taxation policy. Delaware, having opted out of general sales taxation, has had to develop compensatory reliance on specific charges, licenses, and other revenue sources of limited applicability. This pattern of high rates of nuisance taxation, to a more limited extent, characterizes all the remaining states. Maryland, relying on broad-based taxes, particularly those on sales and income, places limited demands on the more narrowly defined revenue sources, or the nuisance taxes. Perhaps it is because of the local dominance of expenditure responsibilities that Maryland has avoided the necessity of exploiting the more limited revenue sources.

PERSONAL TAXES

In the previous sections, the analysis focused on effective tax rates, defined as tax revenue in relation to personal income. The purpose was to indicate the total tax burdens, and those of the major forms of state and local taxation, as they differ between the states. As both business and

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surprising, as it is only recently that the interrelations between industry operation and the revenue yield of all taxes have been spelled out. See D. Greytak and R.W. Bahl, "The Response of City Government Revenues to Changes in Employment Structure," Land Economics 52, 4 (November 1976):415-434.

individuals contribute to tax revenues, little as yet can be said about the taxation of families or individuals. Business tax studies have indicated that business taxation can differ widely across states. In particular, among the states considered here, Maryland, Virginia, North Carolina, and, to a lesser extent, Delaware appear to be states in which businesses receive favorable treatment.[20] Alternatively, West Virginia, South Carolina, Pennsylvania, and Ohio are states with relatively heavy business taxes. These classifications only loosely correspond to a classification by total tax rates (Table 3). More specifically, two states, Maryland and Delaware, which rank high in terms of overall rates of taxation, are classed among those with low business taxes, while two which have relatively low aggregate tax rates, South Carolina and Ohio, are among those which heavily tax business. Comparisons such as these are much too broad to allow firm deductions. They do, however, provide for some general hypotheses about interstate personal tax differences. In particular, they indicate that personal taxes in Maryland and Delaware should be relatively high, while those in South Carolina and Ohio should be low.

The temptation is to seek confirmation of such hypotheses in the effective tax rates discussed earlier. However, although the effective rates of those taxes most closely related to individuals (sales, property, and income taxes) are such that they neither confirm nor deny the hypothesis, this type of comparison is not really appropriate to the matter at hand. This is because substantial sales and property tax revenues are derived from the location and

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[20] See "The Business Climate In Maryland," Chamber of Commerce of Metropolitan Baltimore, op. cit., and studies cited therein.

operation of business in a taxing jurisdiction, and their contribution to tax revenues will influence tax rates as they have been defined herein.

A more appropriate procedure is to examine the sum of taxes paid by families in relation to income levels, since the amount of taxes paid can differ depending on a family's income. Such calculations have been made, and are presented in Table 4.[21]

The major taxes included in these calculations are state and local individual income, state and local sales, residential property, cigarette excise, motor vehicles, and gasoline excise.[22] At each income level, the data show taxes as a percent of adjusted gross income for a homeowning family of four whose income is composed exclusively of wages and salaries.

A cursory examination of these tax rates (Table 4) would seem to indicate the possibility of a north-south dichotomy in state and local government personal taxation. That is, taxes tend to account for a larger share of family incomes in the northern than in the southern states. However, the tendency is tenuous at best in that tax payments in Ohio conform more closely to those of the southern states, and, more importantly, heavier taxation in the north is only clearly

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[21] The reader is cautioned that the concern of this section is focused on the taxes paid and not on the incidence of state and local tax systems. The difference between tax payments and tax burdens in the tax incidence sense arises out of the ability of individuals and business to shift the burdens of tax payment to others. For the purpose of determining the effects of taxation on family income and its distribution, the ultimate incidence of the burden of taxation is the relevant consideration. Tax payments, insofar as they represent the obvious and measurable encounter of business and individuals with the tax system, are considered as appropriate for the analysis of tax climate. It is in this sense that the discussion here considers tax payments. For a thorough discussion of the analysis of tax incidence, see J.A. Pechman and B.A. Okner, Who Bears the Tax Burden?, (Washington, D.C.: The Brookings Institution, 1974).

[22] Other types of excise taxes such as alcoholic beverages, automobile tires, and utility charges, which account for relatively small amounts of taxes, are not included because of estimating difficulties. For a discussion of the procedures employed in the estimation of family tax payments, see S.E. Lile, "Family Tax Burdens Compared among States and among Cities Located within Kentucky and Neighboring States A Study Prepared for the Kentucky Department of Revenue." Unpublished manuscript, Western Kentucky University, December 1975.

Table 4

Distribution of Major State and Local Tax Burdens For a Family of Four Relative to Family Adjusted Gross Income, Selected State (Tax Burden as Percent of Income), 1974.[a]

	$5,000	$7,500	$10,000	$17,500	$25,000	$50,000
Maryland	13.9	13.6	12.8	12.4	11.9	11.7
West Virginia	7.7	6.4	5.6	5.2	4.9	5.1
Virginia	10.0	8.6	7.9	8.2	7.8	7.5
North Carolina	10.3	9.6	9.0	8.9	8.8	8.8
South Carolina	9.1	7.9	7.3	7.6	7.7	8.0
Pennsylvania	12.5	12.9	11.5	10.8	9.9	8.9
Delaware	9.8	8.9	8.3	9.0	9.5	8.6
Ohio	10.5	9.0	7.9	7.7	7.3	7.1
U.S. Average	11.3	10.0	8.9	8.5	8.1	7.8

[a] Includes state and local individual income, sale and residential property taxes, and cigarette, motor vehicle, and gasoline excise taxes.

Source: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1976-77, Table 28.

evident at the higher income levels ($17,500 and above).

Beyond this, the data as given in Table 4 generally conform to the above-stated hypothesis concerning the interrelations between total business and personal taxation. That is, in Maryland and Delaware, where business taxes are relatively low, personal taxes are among the highest, while in Ohio and South Carolina, which heavily tax business, personal taxes are among the lowest. It is important to note that, at all income levels, state and local taxes are highest in Maryland.

Nationally, state and local government taxes are highest for families of lower incomes by roughly 10-11 percent, and they decline as family incomes increase. They account for 7.8 percent of income at the highest income levels. In Maryland, with the exception of the lowest income level, where the difference is only about 23 percent, state and local taxes as a percent of family income exceed their national counterpart by an amount which is never less than 33 percent, and which increases as income increases. Pennsylvania follows the same pattern, but to a much lesser extent.

At the opposite extreme is West Virginia, whose tax burdens at all income levels are the lowest, roughly equivalent to two-thirds the national average. The remaining five states follow much less consistent patterns, although tax burdens tend to be lower in South Carolina, Virginia, and Ohio, and higher in North Carolina and Delaware.

REGRESSIVITY

The tax payments, identified as they are for different income levels, allow comment on another important element of state tax structures, that is, the degree of tax regression. In general, there is a definite tendency for families with low incomes, particularly those at the $7500 or lower levels, to bear a heavier tax burden than their more affluent neighbors. In particular, the state and local governments of Maryland, Virginia, North Carolina, and Ohio place heavier burdens on lower income families. Two states, Delaware and, to a much less extent, South Carolina, deviate from the general tendency in that, for at least some of the higher income levels, tax burdens are greater than those imposed on families of more modest means. As in neither of these states is the tendency to tax higher income families at greater rates uniform and consistent, it is safe to conclude that none of the eight states has a tax structure which is progressive. In this regard, they do not differ from the national average, in that the overall structure of state and local taxation in the U.S. is certainly not progressive. In fact, nationally, state and local taxes appear to be regressive to an extent that is approximated by only West Virginia and Pennsylvania.

In fact, these estimates probably understate the degree of regression in state and local tax systems; this is because the income base employed here is much more restrictive than more often cited measures such as personal income. As personal income includes types of income which in whole or in part are not subject to income taxation, and which are particularly important at high income levels, the data in Table 4 probably overstate the share of personal income accounted for by state and local taxes for high income families.[23] However, as interstate differences between wages and salaries and personal income for high income families are likely to be small, the use of the more restricted income base more or less proportionately overstates the proportion of income of high income families accounted for by taxes.

The reader is cautioned not to interpret the regressivity of personal tax payments as indicating that the burden of Maryland's, or any other state's, tax

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[23] John A. Gorman, "The Relationship Between Personal Income and Taxable Income," Survey of Current Business (May 1970):19-21.

system is distributed in a regressive manner. Regressivity of a tax system depends on the ability of those who pay the tax to shift the burden to others. In relation to personal taxes, shifting of the property tax is of particular importance, and has not been considered here. In addition, the above considerations have been limited to non-business taxes.

This is not to imply that the levels of taxes paid by business do not impose a burden on families and individuals. Obviously, they do, although the impact may not be as direct and clearly identifiable as often implied in discussions of business location. Indeed, the burden of business taxes ultimately falls on individuals and families via higher prices or lower wages and other business related earnings. The relation between the business taxes imposed by a state and the personal tax burden of its residents is an important consideration, and one wholly deserving of attention if one has any concern with the relation between tax policy and the personal welfare of the residents of a state. However, although the procedures involved in such a study are well within current research capabilities, their application would take the analysis beyond its objective: the comparative analysis of state and local government with regard to personal tax payments.[24]

CONCLUSIONS

These considerations notwithstanding, the principal findings of this analysis can be summarized as follows. Although, like the seven other states considered here, Maryland's overall rate of taxation (taxes as a percent of personal income) is low relative to the national average, personal taxes in in contrast to business taxes in Maryland are imposed at rates which, across family income levels, are high in comparison to both the national average and

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[24] S.E. Lile and D.M. Soule, "Interstate Differences in Family Tax Burdens," National Tax Journal (December 1969).

those of neighboring and competitive states.

The second major finding is the fact that personal taxes are imposed at rates which fall as income increases. This has important implications for growth in tax revenues. In particular, it implies that, as the incomes of Maryland's residents increase, revenues from personal taxes will increase, although at a slower rate. Increase in resident incomes, of course, is not the only factor which produces growth in tax revenues. Economic growth and the attendant increase in business activity, employment, etc., also can be expected to yield additional personal as well as business taxes. However, even the possibility that economic expansion will enhance Maryland's future tax revenue prospects is small. For we have found that Maryland's system of personal taxation is not likely to be very responsive to income growth, and, largely because of this, neither is Maryland's overall state and local tax system.

The implications of a tax system which is not very responsive to income growth for the fiscal futures of Maryland's state and local governments is not as clear as might first appear. This is because these futures depend equally on revenue needs, which, in large measure, turn on levels of expenditure. If the historic pattern of government expenditure increases which are greater than income increases continues, then surely fiscal pressures in Maryland will mount as tax revenues fall short of balanced budget requirements.[25] Still, even without revenue shortfalls in the future, Maryland's fiscal position does not appear

[25] During the period 1970-75, for example, state and local direct general government expenditures in Maryland increased by 93.4 percent while per capita personal income increased by 49.9 percent and total personal income increased by 55.9 percent.

to be as healthy as one would like. This has been confirmed by an independent study by the Advisory Commission on Intergovernmental Relations, which has interpreted the levels and growth of tax burdens in terms of a measure analogous to the medical profession's systolic-diastolic reading, i.e., fiscal blood pressure.[26] In these terms, Maryland's tax system has been characterized as having a "fiscal blood pressure" which is high and rising. In this regard, Maryland is similar to its northern neighbors, as the majority of states whose fiscal blood pressure is high and rising are located in the Northeast and Midwest. Indeed, in none of the other states considered here are the circumstances as severe, although Virginia's and Delaware's deviation from the norm is of the same class as Maryland's.[27] Still, the situation in Maryland seems to dictate that Maryland's government officials take heed of these warning signs, and consider remedial action. Extending the medical analogy, two prescriptions seem appropriate, at least as initial measures. The first is that Maryland not undertake new commitments which would place added pressure on its fiscal capacity; i.e., no new taxes or higher tax rates. The force of this prescription is underscored by the fact that Maryland is operating within a few percentage points of its tax capacity, and that increasing tax rates to their capacity levels would only increase revenues by about 3.6 percent.[28] Holding the line on taxes, however necessary it may be, is really a short-run ameliorative rather than a long-term cure. Thus, the second prescription: the tax system should be given a

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[26] Note Advisory Commission on Intergovernmental Relations, Measuring the Fiscal "Blood Pressure" of the States - 1964-1975 (Washington, D.C.: ACIR, February 1977), p. 50.

[27] Ibid., p. 11.

[28] All of the seven other states considered here are operating with higher rates of unutilized tax capacity, and therefore could obtain much greater revenue increments by imposing taxes at their capacity rates. See K.E. Quindry, State and Local Revenue Potential, 1975 (Atlanta, Ga.: Southern Regional Education Board, 1976)

thorough examination so as to determine the nature of the adjustments to the system which, over the long term, would enhance the state's fiscal situation.

While such an examination no doubt will have to pay careful consideration to the relation between the various taxes and the performance of the state's economy, this should not be taken simply as a call for added jobs, particularly if state and local governments are to use public funds to generate tax base expansion. For, just as different types of physical exercise will have varied effects on the human circulation system, so too will the addition of different types of jobs have different effects on the revenue system. This implies, of course, that a prerequisite to long-run remedial action is a knowledge of the contributions of different types of industries directly to business taxes, as well as their indirect contributions which follow from the jobs and employee income they create. Those who are tempted to gloss over interindustry differences in personal as well as business tax revenue generation in haste to achieve an expanded revenue base should note the findings of a recent study of Washington, D.C.[29] In that study, both business and personal tax revenues were traced back to the business sector of origin. Principal among the findings was that jobs in different employment generated widely different amounts of taxable base and tax revenues, i.e., a manufacturing job contributed about $790 to tax revenues while a job in services added only $412 to tax revenues. The implications of such differences for future revenue growth are obvious. To wit, from the point of view of revenue productivity, some jobs are preferable to others.

Beyond this, as one would suspect, the tax contributions of jobs in different employment sectors, and, consequently, the revenue prospects of growth in the

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[29] David Greytak and Edward M. Cupoli, Revenue Implications of Alternative Tax Systems in the Context of a Changing Central City Employment Structure: The Case of Washington, D.C. (Syracuse, N.Y.: Metropolitan Studies Program, Maxwell School, Syracuse University, Occasional Paper No. 33, June 1977).

various employment sectors, depend on the nature of the tax structure.

Reference to the Washington, D.C., study is not meant to imply that the economies of Washington and Maryland are similar, for they are not. Rather, the point of the reference is to indicate that significant differences have been identified in the fiscal capacity which can be associated with different types of industries and business.

The implications of such differences are clear: from the point of view of tax revenues and fiscal capacity, one job is not the same as another. If state and local funds, whether by means of direct subsidies or through the foregone revenues associated with tax reductions or exemptions, are to be used to attract new industry and jobs, then at least some measure of the full tax benefits of these measures would seem appropriate.[30] While the analytical capabilities necessary for such a study are available, the state of Maryland has as yet not been subject to such an examination.

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[30] In addition, a development strategy which limited its consideration solely to matters of fiscal capacity and tax revenues would be remiss. Economic growth and development implies increased government expenditure to meet the needs of new job holders and their families. Consideration of the public expenditure needs as they vary among different types of industries would seem to be an equally important element in the evaluation of both economic development and tax structure modification.

APPENDICES

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APPENDIX A

Comparison of Selected State Tax Rates, 1975

	Corporate Income	Sales and Use	Life Insurance Gross Premiums	Beer Tax (per 3 gallons)	Distilled Spirits (per gallon)	Cigarette Tax (per pack)	Gasoline Tax (per gallon)	Motor Vehicle Sales & Excise	State Motor Vehicle Registration[g]
Maryland	7.0%	5%[a]	2%	$ 2.79	$ 1.50	$ .10	$ .09	4%	$30.10
West Virginia	6.0	1	3	5.50	--[c]	.12	.085	5	30.00
Virginia	6.0	1(1)	2.25	6.00	--[c]	.025[e]	.09	2	20.00
North Carolina	6.0	1(1)	2.5	15.00	22.5% of retail price	.02	.09	2[f]	14.00
South Carolina	6.0	4	3	23.81	2.72[d]	.06	.0775	4	9.30
Pennsylvania	9.5	6	2[b]	2.48	--[c]	.18	.09	6	14.00
Delaware	7.2	5	2	2.00	2.25	.14	.09	2	20.00

[a] Figure in brackets is the maximum authorized local rate.

[b] In addition to state levy, local taxes on insurance premiums are imposed.

[c] State monopoly.

[d] An additional 4.48 tax per case is imposed on wholesale sales.

[e] Local taxes where levied are additional

[f] Maximum tax is $120.00.

[g] Estimated for 1 year-old, 6-passenger, 8-cylinder, 59.2 hp, 4,680 lb. vehicle with an original sales price of $5,000.

Source: Comparison of Selected Tax Rates in the District of Columbia With Those in the Fifty States (Department of Finance and Revenue, District of Columbia Government), December 1975.

APPENDIX B

Comparison of State and Local Income Taxes, 1975

	Minimum		Maximum			
	Rate	Up To	Rate	Over	Number of Rate Classes	Local Income
Maryland	2.0	1000	5	3000	4	up to 50% of state tax rate
West Virginia	2.1	2000	9.6	200,000	24	--
Virginia	2.0	3000	5.75	12,000	4	--
North Carolina	3.0	2000	7.0	10,000	5	--
South Carolina	2.0	2000	7.0	10,000	6	--
Delaware	1.6	1000	19.8	100,000	15	1.25
Pennsylvania	2% of adjusted Federal taxable income				1	1[a]

[a]Maximum rate for all jurisdictions except Philadelphia, Pittsburgh, and Scranton, whose rates are 4.3125, 1.0, and 2.0, respectively.

Source: Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1976-77, Vol. II (Washington, D.C.: GPO), March 1977, Tables 106 and 116.

APPENDIX C

Comparison of Selected Characteristics of Personal Property Taxation, 1974

Legal Status of Tangible Personal Property

	Commercial & Industrial	Agricultural	Household Personal Property	Motor Vehicles
Maryland	T[a]	T[a]	L[b]	T
West Virginia	T	T	T[a]	T
Virginia	T	T	L	T
North Carolina	T	T[a]	T[a]	T
South Carolina	T[c]	T[c]	E	T
Delaware	E	E	E	E
Pennsylvania	E	E	E	E

NOTE: T denotes legal taxability,
E denotes exemption, and
L denotes local option except in Virginia, where option to exempt is effective in most jurisdictions.

[a] Subject to legal provision for partial exemption.

[b] Taxable only if used in the production of income.

[c] Manufacturers inventory exempt. Certain unused agricultural machinery not included in retailers inventory. Legal assessment of 9.5% for merchant and manufacturers property.

Source: Significant Features of Fiscal Federalism, 1976-77, vol. II (Advisory Commission on Intergovernmental Relations, Washington, D.C.), March 1975, Table 84.

APPENDIX D

State and Local Transfer Taxes by State

State	State Transfer Tax Rates, Percentage Equivalents	Local Transfer Tax Rates, Percentage Equivalents	Total State and Local Tax Rates
Maryland	.61		.61[a]
		.22	.83[b]
		.33	.94[c]
		.55	1.16[d]
Alabama	.10		.10
Arizona	[e]		
Arkansas	.11[f]		.11
California		.11[g]	.11
Colorado	.01[h]		.01
Connecticut	.11[f]		.11
Delaware	2.00	1.00	3.00
District of Columbia		.05[i]	.05
Florida	.41		.41
Georgia	.10[j]		.10
Hawaii	.05[f]		.05
Illinois	.10[f]		.10
Indiana	[k]		
Iowa	.11[h]		.11
Kentucky	.10		.10
Maine	.11		.11
Massachusetts	.228[f,m]		.228
Michigan	.11[f]		.11
Minnesota	.22[o]		.22
Nebraska	.11		.11
Nevada	.11[f]		.11
New Hampshire	.15[f]		.15
New Jersey	.10[f]		.10
New York	.11[f]	1.00[l]	1.11
North Carolina	.10		.10
Ohio		.40[n]	.40
Oklahoma	.11[f]		.11
Pennsylvania	1.00	1.00	2.00
Rhode Island	.11		.11
South Carolina	.20[f]	.11	.31
South Dakota	.10		.10
Tennessee	.26		.26
Vermont	.05		.05
Virginia	.25[f]	.05	.30
Washington	.10[f]	≤1.00[p]	<1.10
West Virginia	.22	.11	.33
Wisconsin	.10[f]		.10

[a]This rate applies to counties levying an additional tax: Carroll, Cecil, Frederick, Howard, Prince Georges, Somerset, Talbot, and Washington.

[b]This rate applies to these counties: Allegany, Anne Arundel, Baltimore, Dorchester, Garrett, Montgomery, St. Mary's, and Wicomico.

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[c]This rate applies to Baltimore City and the following counties: Calvert, Caroline, Charles, Kent, Queen Anne's, and Worcester.

[d]This rate applies to Harford County.

[e]Arizona charges $2.00 per document.

[f]Transfers under $100 are exempt.

[g]Any city within a county levying the tax may impose a city transfer tax at a rate one-half that of the county. City tax becomes a credit against county tax.

[h]Transfers of $500 or less are exempt.

[i]Minimum tax $1.00.

[j]Rate is $1.00 for the first $1000 or fraction and 10¢ for each additional $100 or fraction. Transfers of $100 or less are exempt.

[k]Tax on proceeds of sale of real property applicable only to those corporation subject to gross income tax, at a rate of 1.8 percent in 1974, and 1.7 percent in 1975. Rate declines annually until tax is completely phased out in 1992.

[l]Tax applies only where considerations exceed $2500.

[m]Includes an additional 14 percent surtax on the basic rate of .20.

[n]Minimum basic tax $1.00. Figure includes optional additional county tax rate of .30 to the basic .10 rate.

[o]Rate is $2.20 on first $1000.

[p]A credit for amount of tax paid on transfer of single-family residences is applicable to tax due on subsequent transfer of property within 9 months.

SOURCES: U.S. Advisory Commission on Intergovernmental Relations. Significant Features of Fiscal Federalism 1976-77 Edition, Vol. II, Revenue and Debt, M-110, Washington, D.C.: U.S. Government Printing Office, March 1977. Tables 94 and 95, pp. 168-197.

U.S. Department of Commerce, Bureau of the Census. State and Local Ratio Studies and Property Assessment. Series GSS, No. 72, Washington, D.C.: U.S. Government Printing Office, 1975. Table 5, p. 17.